



# Monthly Economic Update

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Robert Hagedoorn, Chief Economist  
Montgomery County Department of Finance

This report is a monthly update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.co.mo.md.us/services/finance> For questions, please call (240) 777-8887

- **Economic Outlook.** The latest GDP revision shows that the national economy dipped into a mild recession in the 1<sup>st</sup> qtr of 2001. On the bright side, the economy expanded in the past three quarters exhibiting underlying strength, such as consumer spending and improved capital goods orders, that may sustain this rally and avoid a double-dip recession.

With a modest economic recovery and general absence of either consumer price or wage inflation, the Feds are unlikely to raise interest rates anytime soon. On the other hand, the weak corporate profit outlook and accounting scandals may prevent a strong rebound of the worst “bear market” since the 1930’s. The “irrational exuberance” speech, delivered by Fed Chairman Alan Greenspan in 1996, is now only a distant memory as investors lost \$5 trillion from the peak in early 2000 and the broad-based S&P 500 stock index is at a five-year low.

The leading economic indicators reflect the weak economic outlook, exacerbated by a sharp drop in consumer confidence, which, to a large degree, reflects the negative stock market news.

- **Real Estate.** In contrast to the slump in the stock markets over the past 2½ years, the real estate market remains robust. Nationwide, existing home sale are up 6.2% in the first half of this year, while new homes are up a more modest 2.7% in the same period. Sale prices, however, have literally gone through the roof, with a 9.0% jump in the average and 7.8% in a median home sale price.

The consistently bad news from the stock markets and the sharp rise in real estate prices, has contributed to a further shift towards residential real estate investment. What didn’t dampen this trend either are lower mortgage interest rates. After temporarily drifting upward from a 30-year low, rates have begun to decline again.

Two recent studies suggest that in one-third of large metropolitan areas, the affordability of homes is becoming problematic. Cities that experienced

the sharpest growth in house prices compared to personal income are Boston, San Diego, Fort Lauderdale, San Francisco, and Miami.

Although not a separate metropolitan area, Montgomery County would have received a high ranking (i.e., declining affordability) as well, considering that the median home sale price jumped 20.7% through June – triple the rate of personal income growth. Another sign of a strong market in the County is the decline in the number of days a house is listed for sale, which dropped from 170 days five years ago to just 19 days. It also suggests that supply is limited. Not surprisingly, the number of County homes sold edged up only 0.9% through June.

- **Construction.** Even though the County’s supply of homes for sale has dwindled, the number of new homes, as measured by building permits, is falling. In the first six months of 2002, residential building permits fell 11.8% below the same period last year, while the value of all residential construction is unchanged. However, the only reason for the unchanged value is the jump in multi-family dwellings, with single-family homes down 11% from 2001.

Non-residential construction doubled from 2001, with particular strength in commercial (31%), education and science (196%), and amusement (197%). However, within the commercial sector, new office buildings are down 19% as construction fell from 1.1 million last year to 560,000 sq ft this year.

- **Labor Market.** Even though the County’s labor market remains solid with only 2.9% unemployment, the slow-down in new jobs has been dramatic.

In contrast to the resident employment numbers in the County that indicate 2.3% growth last year, the number of jobs in the County grew only 0.4%, with the entire 2<sup>nd</sup> half of the year negative as employers reduced their payroll. For example, compared to 2000 when the private sector added close to 20,000 new jobs, this sector added only 18 jobs in 2001.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		2001
				2002	2001	
Leading Indicators						
National	June	0.0%		2.8%		2.5%
Washington MSA	May	-0.7%		-0.1%		-0.9%
Consumer Confidence Index						
National	July	-8.7%		-9.6%		-26.4%
South Atlantic Region	July	-7.4%		-7.7%		-23.9%
Consumer Price Index						
All Items						
National	June	1.1%		1.3%		2.9%
Washington - Baltimore CMSA	May	2.5%		2.1%		2.6%
Core CPI						
National	June	2.3%		2.5%		2.7%
Washington - Baltimore CMSA	May	3.6%		3.2%		3.1%
Retail Trade						
National (sales)	June	1.1%		2.8%		3.7%
Maryland (tax)	May	2.0%		0.8%		3.0%
Montgomery County (tax)	May	1.6%		0.5%		3.8%
Employment						
National	June	134,992,000	135,923,000	133,669,667	135,130,167	135,073,000
- Percent Change		-0.7%		-1.1%		-0.1%
Washington PMSA (at place)	May	2,803,700	2,791,900	2,781,400	2,769,900	2,831,800
- Percent Change		0.4%		0.4%		2.8%
Montgomery County (resident)	May	484,352	474,509	481,339	473,089	477,701
- Percent Change		2.1%		1.7%		0.8%
Montgomery County (payroll)	Dec. 2001	458,785	460,420	449,939	447,744	447,744
- Percent Change		-0.4%		0.5%		4.9%
Unemployment						
National	June	6.0%	4.7%	6.0%	4.5%	4.8%
Maryland	May	4.6%	3.8%	5.0%	3.9%	4.1%
Washington PMSA	May	3.7%	2.8%	3.8%	2.5%	2.7%
Montgomery County	May	2.9%	2.2%	3.1%	1.9%	2.3%
Construction						
Project Cost - Montgomery County						
Total (\$ thousand)	June	\$217,621	\$139,195	\$870,663	\$599,207	\$1,353,664
- Percent Change		56.3%		45.3%		15.4%
Residential (\$ thousand)	June	\$60,131	\$92,794	\$324,455	\$323,663	\$682,768
- Percent Change		-35.2%		0.2%		17.2%
Non-Residential (\$ thousand)	June	\$157,490	\$46,401	\$546,208	\$275,544	\$670,896
- Percent Change		239.4%		98.2%		13.6%
Building Permits (Residential)						
National	June	156,025	151,917	852,005	831,363	1,610,766
- Percent Change		2.7%		2.5%		1.2%
Maryland	June	2,470	3,044	14,411	13,987	28,412
- Percent Change		-18.9%		3.0%		-6.4%
Montgomery County	June	285	791	2,156	2,445	5,091
- Percent Change		-64.0%		-11.8%		13.8%
Building Permits (Non-Residential)						
Montgomery County	June	147	152	946	989	2,102
- Percent Change		-3.3%		-4.3%		23.9%
Real Estate						
National						
Sales	June	5,070,000	5,300,000	5,660,000	5,330,000	5,296,000
- Percent Change		-4.3%		6.2%		2.8%
Median Price	June	\$163,500	\$152,200	\$154,300	\$143,200	\$147,800
- Percent Change		7.4%		7.8%		6.3%
Montgomery County						
Sales	June	1,794	1,749	7,219	7,153	15,489
- Percent Change		2.6%		0.9%		4.8%
Average Price	June	\$343,472	\$280,853	\$307,451	\$264,392	\$274,522
- Percent Change		22.3%		16.3%		8.1%
Median Price	June	\$271,950	\$220,000	\$240,492	\$199,300	\$215,000
- Percent Change		23.6%		20.7%		13.2%